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How Muni Trading Volume is Rebounding This Year.

WASHINGTON - The par amount of municipal trades reached the highest level in nearly three years during the second quarter of 2016, showing a rebound from significant declines in the second half of last year, according to Municipal Securities Rulemaking Board statistics posted Wednesday.

The total par amount traded in the second quarter was \$818.2 billion, an increase of 10.4% from the \$741.4 billion in trading the year before and the highest volume since the MSRB recorded a total par amount of \$825.4 in the third quarter of 2013. The increase follows total recorded trading by par amount of \$634.7 billion in the first quarter of the year.

Michael Decker, managing director and co-head of munis with the Securities Industry and Financial Markets Association, said the biggest factor that affects trading volume is issuance volume because bonds tend to trade more actively after they are issued.

"The second quarter of 2016 was a strong quarter for issuance," he said. "That was probably a significant driving factor in why trading volume ticked up."

He added that even with the increase, trading volume is still down significantly from before or during the financial crisis as yields remain low.

"It is hard to get investors excited about bonds at the current level of yields," Decker said.

Matt Fabian, a partner with Municipal Market Analytics, said the upward trend in trading volume shows that the market has largely found its footing again.

"There was less worry about [Federal Reserve Board] action and I think that the market was more comfortable with the prospect of yields staying lower for longer," Fabian said about the MSRB 2016 data.

The corresponding decrease in total number of trades during this year's second quarter, 2.34 million compared to 2.56 million a year before, shows that there's more follow through in the immediate secondary market, where bonds are less fragmented than they generally become over time as they move more to retail investors, Fabian added.

The decrease in total trades also shows the continuation of the trend toward institutional investment in the muni market and the industry's transition away from individual bondholders each having their own accounts and personally directing how their money is spent, he said.

"It's been a steady move in the industry toward managed money either through separately managed accounts or mutual funds," Fabian said.

The MSRB data also shows that customer buying activity increased to \$6.44 billion in the second quarter of 2016 compared to \$5.96 billion in the second quarter of 2015. The average daily number of trades of customer purchases decreased to 14,484 in the second quarter of 2016 compared to 17,009 the year before.

The most actively traded muni by par amount in the second quarter this year was a 2007 tobacco settlement asset-backed bond issued by the Golden State Tobacco Securitization Corp. The MSRB data shows a par amount of \$4.7 billion of the bonds with 68 trades during the quarter.

The most actively traded bond by number of trades was a hospital revenue refunding bond from the West Virginia Hospital Finance Authority that had 1,464 trades with a par amount of \$123.6 million. The refunding bonds were issued this year.

Variable rate demand obligation rate resets continued a steady decline in this year's second quarter with only 120,725 recorded. That compares to 135,504 in 2015's second quarter, about a 12% decrease.

The Bond Buyer

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